

The production performance of captive coal blocks is crucial for narrowing the gap between domestic demand and supply of coal which is the prime source of energy of the nation.

This chapter analyses the production performance of coal blocks during XI plan period and steps taken by the MOC for facilitating the production from captive coal blocks. The monitoring mechanism put in place to address various bottlenecks which are hindering the desired production of coal from the captive coal blocks and the system of 'incentives' and 'disincentives' adopted to ensure performance by these coal blocks are also analysed.

## 5.1

### Allocation of captive coal blocks during the XI Plan

The year-wise allocation of captive coal blocks to the Government companies, private companies and Ultra Mega Power Projects (UMPPs) as on 31 March 2011 is given in table below.

#### Year-wise allocation of coal blocks for captive mining

Year of allocation	Govt. Companies		Private Companies		Ultra Mega Power Projects		Total	
	No. of Blocks	GR (in million tonne)	No. of Blocks	GR (in million tonne)	No. of Blocks	GR (in million tonne)	No. of Blocks	GR (in million tonne)
1993 to 2005	29	6294.72	41	3336.88	0	0	70	9631.60
2006	32	12363.15	15	3793.14	6	1635.24	53	17791.53
2007	34	8779.08	17	2111.14	1	972	52	11862.22
2008	3	509.99	20	2939.53	1	100	24	3549.52
2009	1	337	12	5216.53	3	1339.02	16	6892.55
2010					1	800.00	1	800.00
<b>Total</b>	<b>99</b>	<b>28283.94</b>	<b>105</b>	<b>17397.22</b>	<b>12</b>	<b>4846.26</b>	<b>216</b>	<b>50527.42</b>

(GR – Geological Reserves)

Out of the above 216 blocks, 24 blocks were de-allocated (three blocks in 2003, two blocks in 2006, one block in 2008, one block in 2009, three blocks in 2010 and 14

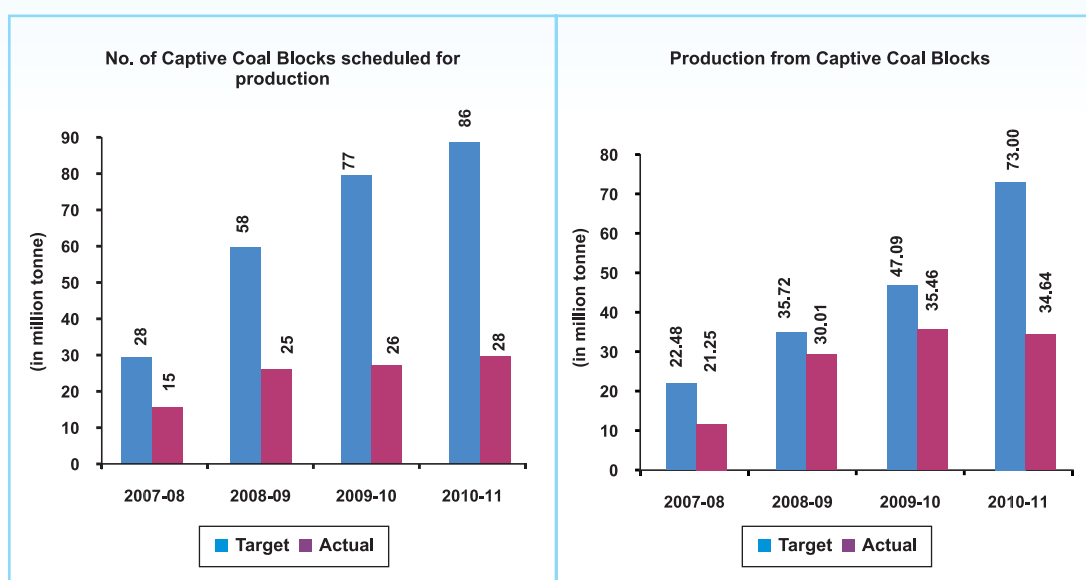
blocks in 2011) for non-performance of production by the allottees<sup>14</sup> and two de-allocated blocks were subsequently re-allocated (2003 and 2005) to others.

Hence, 194 coal blocks, with aggregate geological reserves of 44,440 million tonne, stood allocated as of 31 March 2011.

## 5.2 Production from Captive Coal Blocks during the XI Plan

The production of coal from the coal blocks allocated for captive mining was expected to play a significant role in meeting the demand for coal in the country.

The year-wise targets and achievements in respect of 86 captive coal blocks which were expected to produce in the XI Plan period are given in Charts.



It would be seen from the above that out of 86 coal blocks with targeted coal production of 73.00 million tonne which were scheduled to produce in the XI Plan period (upto 2010-11), only 28 blocks (including 15 blocks allocated to private sector) started production as of 31 March 2011. They produced only 34.64 million tonne of coal during 2010-11. This resulted in a shortfall of 38.36 million tonne (52.55 per cent) of coal production from the captive coal blocks.

*The Ministry stated (February 2012) that development of coal blocks involves a gestation period of three to seven years for reaching the production stage and allottees who had not started production so far, were in various stages of obtaining statutory clearances and mining lease. In case of wilful delays appropriate action was*

<sup>14</sup> Term used for a party to whom a coal block has been allocated for captive mining

*taken to de-allocate the blocks and so far 25 coal blocks had been de-allocated. The Ministry further added (March 2012) that 24 months given for exploration and six months for forest clearance envisaged earlier were not found adequate and that the average time taken by CIL for getting forest and environment clearance was more than four years. The performance of allocated captive coal blocks was reviewed in January 2012 and a series of steps had been contemplated to ensure that intended benefits from private captive coal blocks do get realized in the quickest possible time.*

The scheduled production plans of blocks were formulated after considering the time required for pre-production clearances and activities. A shortfall of 52.55 per cent in the production targets reflects the objective of enhancing production through allocation of captive coal blocks remained unachieved.

### 5.3

### Coal blocks allocated without tying up exploration and development

In order to ensure that the coal blocks are allocated in an informed manner and that there are no hurdles to their commencement of production, basic issues related to exploration and development should have been tied up in advance. The approval of Mining Plan is a pre-requisite for implementation of the coal mining project. MOC decided (October 2003) that no allocation of a captive block would be done unless the block was explored to facilitate assessment of ER and preparation of a Mining Plan. This would help the Screening Committee to take decisions on allocation of coal blocks in a more informed and accurate manner. Audit, however, observed as under:

- Out of 194 blocks allocated by MOC for captive mining till 31 March 2011, only 142 were explored blocks (GR: 23391 million tonne) and the balance 52 were either regionally explored or were unexplored coal blocks (GR: 21049 million tonne), which required further exploration for preparation of Mining Plan;
- The Geographical Coordinates System, practised internationally, expresses coordinates of a block in terms of longitudes and latitudes. The earlier blocks which were identified for the captive list, were either surveyed by CMPDIL in local rectangular grids with assumed values or were not surveyed by CMPDIL and these blocks were only regionally explored by GSI/MECL. Hence, precise coordinates i.e. longitudes and latitudes for the blocks were not available with MOC at the time of allocation. This could delay production on account of demarcation disputes, such delays occurred in Gare IV/6 Block (Jindal Steel and Power Limited and Nalwa Sponge Iron Limited jointly), Gare IV/7 Block (Raipur Alloys) and Ramchandi Block (Jindal Steel and Power Limited);

- There were disputes due to overlapping of coal blocks with Coal-Bed Methane (CBM)<sup>15</sup> blocks. Biharinath Block was allocated (February 2007) for captive coal mining to Bankura DRI Mining Manufacturing Private Limited and the same was also allocated to GEECL<sup>16</sup> by the Ministry of Petroleum and Natural Gas for CBM extraction. Though a co-development plan was worked out, GEECL obtained a stay order from the Hon'ble Delhi High Court restricting the coal allottees from the development of the coal block. Similarly, in the case of Patal East Block (allocated in November 2007) to Bhushan Power & Steel Ltd. and Moira Madhujore Block (allocated in October 2009) to Ramswarup Lohh Udyog Ltd. there were overlapping of coal blocks with CBM blocks. This adversely affected the development of these coal blocks.

*The Ministry stated (February 2012) that exploration takes a fairly long time and it would not be possible to consider allocation of only explored blocks due to their limited availability. Meetings of all the stake holders were held to resolve the disputes in consultation with CMPDIL and concerned coal company.*

Audit is not in agreement with the reply of the Ministry as the system of firming of the reserves to provide data to the Screening Committee for allocation of coal blocks in an informed and rational manner was not followed. This was also observed by Expert Committee that only explored blocks were to be offered to the allottees.

#### **5.4 Excess allocation of coal**

There is a possibility of production of surplus coal from the captive coal blocks, if the coal production materializes before the commissioning of the End-Use Project (EUP) or if the coal production outpaces requirement in EUP.

Audit observations in respect of Sasan UMPP have been discussed in other CAG's Audit Report on 'Ultra Mega Power Projects under the Special Purpose Vehicles' for the year ended March 2012.

#### **5.5 Delays in Commencement of Production and reasons thereof**

As per the guidelines of MOC, the allocated captive blocks should commence production within 36 months (42 months for forest land) in case of open cast mines and 48 months (54 months for forest land) for underground mines from the date of issue of letter of allocation. Besides, additional two years is allowed for commencement of production for unexplored and regionally explored captive blocks.

<sup>15</sup> Coal bed methane is a form of natural gas extracted from coal beds

<sup>16</sup> Great Eastern Energy Corporation Limited

It was seen in Audit that out of 28 producing blocks as on 30 June 2011, there was time overrun ranging from one to ten years from the normative production schedules in thirteen blocks.

Similarly, out of 68 non-producing blocks where normative date of production was due by 30 June 2011, there was time overrun ranging from one to five years in 47 blocks and more than five to ten years in 4 blocks from the normative production schedule.

Audit analyzed the factors responsible for delays in respect of these 68 coal blocks and found that it was largely on account of delays in land acquisition (LA), forest clearance (FC), Mining Lease (ML), Mining Plan (MP) and Environment Management Plan (EMP).

Audit also noted that out of above 68 blocks, different milestones were awaited e.g. FC in 53 blocks, LA in 62 blocks, ML in 58 blocks, MP in 4 blocks and EMP in 26 blocks were pending as on 30 June 2011. There was lack of coordinated approach by the State Governments and the Central Government towards commissioning of end-use projects and the commencement of production from the coal blocks. The abnormal time taken for obtaining mining leases, surface rights, land acquisition, resettlement/ rehabilitation, environmental clearances from the Central and State Governments have severely hindered the commencement of production from captive coal blocks. Some states have adopted a single window system for grant of various approvals though progress in this regard is slow.

*The Ministry stated (February 2012) that review meetings were held to evaluate the development of allocated coal blocks in which the representatives of the State governments and Central Ministries also participate and were requested to expedite all clearances.*

In this connection, it is noted that the Expert Committee (2005) had also observed that major delays occur in most cases in obtaining environmental clearance, approval for land, mining leases from the concerned State Governments and the subsequent land acquisition process. The Committee had suggested that MOC should take a proactive role in monitoring the approvals and clearance by the State authorities. It was, therefore, recommended that an empowered High Powered Committee chaired by Secretary (Coal) be constituted with the members from the nodal Ministries e.g. MoEF, Mine, etc. and the State Governments with a view to monitor and review the progress of clearances and approvals necessary to expedite commencement of production. There is a need to constitute an empowered group along the lines of Foreign Investment Promotion Board (FIPB) to grant the necessary licenses for accelerating the procedures for commencement of production.

Since 1993, MOC has been monitoring the production of coal blocks. In January 2005, the Coal Controller's Organisation (CCO) was made the nodal agency for the purpose. MOC constituted (October 2009) a Committee under the chairmanship of the Additional Secretary (Monitoring Committee) to monitor the development of allocated coal blocks/end use projects.

The responsibility of developing the coal block as per the prescribed guidelines and milestones of allocation letter rests entirely with the allottees and in the event of wilful delay in the development of coal blocks/setting up of the end use project, the Government reserves the right to take appropriate action to de-allocate the said block. The Government in line with this, periodically monitors and reviews the development of coal blocks in the review meetings. Wherever delays are noticed, show-cause notices and advisories are issued to such allottees cautioning them to bring the coal blocks into production as per the guidelines/milestones chart failing which de-allocation of the block is done. CCO prepares a quarterly status report on development of coal blocks and associated end-use projects, on the basis of information furnished by the block allottees, which is placed before the Monitoring Committee for review and for recommending suitable remedial action.

Audit observed that:

- As per MMDR Act, 1957, the Coal Controller with a view to ensuring compliance of rules, may enter and inspect any colliery. However, CCO did not conduct any physical inspection of allocated coal blocks to ascertain the actual progress/production vis-à-vis the progress/production reported by the allottees. The correctness of the data furnished by the allottees, therefore, could not be vouched for.
- CCO did not have adequate sanctioned strength or men-in position for effective monitoring of coal blocks. It was noticed that the process of creation of 17 technical posts proposed by the CCO in 2007 was still under consideration of the MOC (November 2011);
- MOC directed (July 2010) that the nine blocks which had achieved the peak rated capacity would not be reviewed further at MOC, but their progress would be monitored by CCO. CCO, however, failed to comply with these directives of MOC (November 2011); and
- The Monitoring Committee was to review the progress of allocated coal blocks every month. The same was, however, not strictly followed and the meetings were held on quarterly basis.

It was further noted that MOC issued show cause notices and de-allocated 24 blocks upto June 2011 for lack of initiative for development of coal blocks by the allottees.



The proposed competitive bidding procedure was intended to increase financial stakes of the allottees in the allocated blocks to bring the required sense of urgency in developing the blocks/end use projects, but that is yet to commence. There is also the issue of diversion of coal produced from the captive coal blocks to the black market. In such a scenario, effective monitoring is required to ensure development of coal block as per the prescribed milestones as also to keep a watch on the use of produced coal.

*The Ministry accepted (February 2012) that there was a need to strengthen the CCO, Kolkata and stated that a proposal for creation of additional posts was under consideration.*

## 5.7

### Non-encashment of bank guarantees in case of default

MOC introduced (March 2005) the system of bank guarantee (BG) to ensure timely production from the coal blocks. The Expert Committee on Road Map for Coal Sector Reforms (December 2005) recommended for submission of BG, 50 per cent of which linked to guaranteed production and 50 per cent to setting up of end use projects. MOC modified (January 2007) the system of BG and linked 50 per cent of BG amount with the milestones to be achieved before the start of production and balance 50 per cent of BG with guaranteed production. The furnishing of BG was also made applicable (July 2007) for the coal blocks allocated to Government Companies under the Government Dispensation. Since October 2009, the Monitoring Committee was to assess and recommend deduction of BG for encashment in case of laxity in development of coal blocks or end use plants as per the terms and conditions of the allocation letters/milestone timelines.

The Expert Committee has also recommended for legal measures to cancel licenses issued earlier if the allottee failed to take adequate steps to bring the allotted mines to production or in setting up of end use plants.

In this connection Audit observed as follows:

- There was delay in introducing BG and linking it with the milestones. As a result, the furnishing of BG by the MOC could not be made applicable to 46 blocks allocated prior to 2005. Further, achievement of milestones in respect of 118 blocks allotted prior to July 2007 was not linked with the BG and hence imposition of penalty for non-compliance of milestones could not be implemented;
- CCO/MOC could not collect BG from five blocks viz, Pindrakhi, Puta Parogia, Mourya, Bhivkund and Bankui, as per the terms and conditions of allocation, allocated during July 2008 and June 2010 (as of 15 August 2011). This included BG amounting to ₹ 247.98 crore in respect of Bhivkund, Bankui and Mourya Blocks;

- As per the terms and conditions of allotment of coal blocks, the BG amount would be modified based on the final peak rated capacity of the mine. However, the same is yet to be done (November 2011);
- There was also no methodology for accounting of BG. No proper head of account was earmarked for deposit of encashed BG. As a result, MOC/CCO could not encash BG amounting to ₹12.94 crore against six blocks (Ansettipalli: ₹ 0.59 crore, Pudukula Chilaka: ₹ 0.80 crore, Pengedappa: ₹ 7.50 crore, Mandla South: ₹ 1.14 crore, Semaria/Piparia: ₹ 0.91 crore and Ravanwara North: ₹ 2.00 crore);
- MOC de-allocated 24 blocks upto June 2011 for lack of initiative for development of coal blocks by the allottees. The Monitoring Committee also recommended (January and February 2011) for deduction of BG from 15 allottees for delay in development of coal blocks. However, MOC could not encash the BG wherever applicable from these allottees as the modalities for such encashment was still to be worked out (November 2011). The Expert Committee also recommended for encashment of BG in full in such cases ; and
- As of November 2011, lapsed BG worked out by audit was ₹ 311.81 crore against 15 blocks which needed to be renewed.

*The Ministry accepted (February 2012) that there were no guidelines in place for calculation of the amount for encashment of bank guarantee and added that the same were under consideration.*

## 5.8 Framework for augmentation of coal production

Audit analysis of the extant framework for allocation of coal blocks revealed the following:

- (i) Government of India does not charge any money for allocation of coal blocks for captive mining except the cost of exploration. The allottee has to pay mainly royalty to the State Government. Thus, the difference between the market price of the coal and the cost of production is a direct/incentive gain to the allottee ; and
- (ii) In case of delayed production of coal, the allottee is under the risk of deallocation of the coal block or penal action by the MOC viz., encashment of part or full bank guarantee besides depriving of the benefits of the coal production.

Thus, there is a scope for improvement in the system to facilitate augmentation of coal production to meet the demand of coal by the following:

- (i) Speedy approval like mining lease, mining plan, forest clearance and environmental management plan from the various Ministries/Departments as also land



acquisition from the concerned State Government through the mechanism of the High Powered Committee recommended in *para 5.5* above ;

(ii) There should be incentives for timely production of coal, even in cases of production prior to commencement of the end use plant as also for production of surplus coal more than the requirement for the end use project. A well laid down policy for reasonable return over the cost of production, including support for speedier creation of infrastructural facilities is required;

(iii) In case of unjustified delays by the allottees, timely penal action (including de-allocation of blocks) for non/ poor performance needs to be enforced ; and

(iv) Amount of the bank guarantee needs to be enhanced to increase the stake of the allottee to restrict/ penalise non-serious players.

